

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 2862 - SB 3056**

February 21, 2012

**SUMMARY OF BILL:** Creates a tiered system of incentive payments for teachers who score at or above the minimum threshold score on their teaching evaluations. In a five-point evaluation system, teachers scoring a five in the previous school year will receive \$1,500. Teachers scoring a three or four in the previous school year will receive \$1,000. In a four-point evaluation system, teachers scoring a four in the previous school year will receive \$1,500. Teachers scoring a three in the previous school year will receive \$1,000. Funding for incentive payments will be deposited into a new fund created in the state Treasury entitled the "Teacher Incentive Pay Fund." Monies placed into the fund will not revert at the end of the fiscal year. Funding from unexpended state BEP funds and unexpended appropriations to the state special schools will be placed into the Teacher Incentive Pay Fund to help defray the cost of teacher bonuses. The salary bonus will not count as earnable compensation for the purposes of retirement. The Commissioner of Education is authorized to reduce bonus payments on a pro-rata basis in any fiscal year in which there is insufficient funding to fully fund bonus payments. The Commissioner of Education is also authorized to establish a minimum fund balance for the Teacher Incentive Pay Fund and to stop incentive payments if the minimum fund balance is not met. Specifies that incentive payments are not a part of the Basic Education Program (BEP) funding formula. Payments shall be made in the first fiscal year in which monies are deposited into the fund.

**ESTIMATED FISCAL IMPACT:**

**Increase State Expenditures - \$59,902,400**

**Other Fiscal Impact – Unexpended funding from state appropriations made to state special schools and the state BEP fund will shift to the Teacher Incentive Pay Fund. The total amount of unexpended funding will vary from year to year. The total amount of unexpended funding in FY10-11 from the state special schools and the state BEP was \$1,403,000. Unexpended amounts from these accounts will be placed into the Teacher Incentive Pay Fund and will defray the overall increase in state expenditures for teacher bonuses. For the purposes of the fiscal note, the increase in state expenditures does not reflect this net increase since the amount of any unexpended funding in FY11-12 and subsequent fiscal years is unknown.**


**HB 2862 - SB 3056**

Assumptions:

- There are 64,849 regular teachers in local education agencies and 234 teachers at state special schools eligible to receive bonuses. A total of 65,083 teachers will be eligible (64,849 + 234).
- Teachers scoring a three, four, or five in the previous school year will receive a bonus payment.
- DOE estimates that 72 percent of teachers will score a three or four on their teaching evaluation and receive a \$1,000 bonus. The number of teachers who will receive a \$1,000 bonus will be 46,860 (65,083 x 72%).
- The increase in state expenditures for this tier will be \$46,860,000 (46,860 x \$1,000).
- DOE estimates that nine percent of teachers will score a five on their teaching evaluation and receive a \$1,500 bonus. The number of teachers who will receive a \$1,500 bonus will be 5,857 (65,083 x 9%).
- The increase in state expenditures for this tier will be \$8,785,500 (5,857 x \$1,500).
- The increase in state expenditures for bonuses will be \$55,645,500 (\$46,860,000 + \$8,785,500).
- TCRS will not be paid on the bonus amount since bonuses will not be counted as earnable compensation.
- Federal taxes (FICA) in the amount of 7.65 percent of the total will be paid by the state to cover the employer's share of this tax. The increase in state expenditures for FICA will be \$4,256,881 (\$55,645,500 x 7.65%).
- The total increase in state expenditures for bonuses and FICA will be \$59,902,381 (\$55,645,500 + \$4,256,881).
- The total increase in state expenditures will be offset each year by the amount of unexpended or unencumbered funding from the state special schools and the state BEP fund. This amount will change annually. In FY10-11, state special schools had unexpended funding of \$1,164,000 and the state BEP fund had \$239,000.
- The increase in state expenditures reflects the full cost of implementation without defraying the costs using any unexpended fund balances since these amounts are unknown in FY11-12 and subsequent fiscal years.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/msg